Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2016**

2 hours 15 minutes

No Additional Materials are required.

2166620014

READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer Question 1.
Section B
Answer any **three** questions.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **5** printed pages, **3** blank pages and **1** insert.

DC (KN) 112827/2

CAMBRIDGE
International Examinations

Section A

Answer this question.

1 The changing oil market

In 2013 China overtook the United States of America (US) as the largest importer of oil. The rise in Chinese demand has driven up the price of oil. The higher price of oil has made production techniques used in the US, such as hydraulic fracking, possible and has provided more oil for US domestic consumption. US oil companies have purchased larger, more expensive capital equipment and are employing more specialist engineers. The expansion in the US oil industry contributed to the fall in the country's unemployment rate to 6.1% in 2014.

Despite being the largest importer of oil, China is not yet the world's largest consumer. In 2013 the US oil industry supplied 10.5 million barrels a day, exported 3.4 million barrels a day and imported 10.9 million barrels a day. These figures are likely to change in the future. For example, in 2013 the US had 250 million vehicles and China had only 100 million. It is forecast that by 2030 China will have 350 million vehicles. If this change does occur, China will become more vulnerable to oil price changes and disruptions in the supply of oil.

While US oil production is increasing, its consumption is falling. More oil is being discovered in the country and more sophisticated techniques are being used to extract it. At the same time, fewer young people in the country are learning to drive, vehicle ownership per household is falling and average mileage is declining. In addition, US cars are becoming more fuel efficient as a result of tighter fuel economy standards and consumers switching to more economical vehicles.

US consumers are becoming more sensitive to changes in the price of oil but a rise in price still leads to a rise in oil producers' revenue. Changes in the price of oil, oil production and oil consumption also still have a significant effect on the US economy. For example, the discovery of more oil in the country usually affects the value of the US dollar.

Changes in the consumption and production affect China's and the US's current account positions on their balance of payments. Currently China has the world's largest current account surplus whilst the US has the world's largest current account deficit. It is interesting to note that both countries have been trying to increase their economic growth rate. The US central bank, the Federal Reserve, has tried to raise the growth of the country's output by cutting the rate of interest.

(a) Using information from the extract, explain whether the US was operating on or inside its production possibility curve in 2014. [2]

(b) Explain whether the extract suggests the demand for oil in the US is price-elastic or price-inelastic. [2]

(c) Using information from the extract, explain **two** economies of scale that US oil companies are experiencing. [4]

(d) Calculate the US's demand for oil per day in 2013. [3]

(e) Analyse how the discovery of more oil in the US would be likely to affect the value of the US dollar. [4]

(f) Discuss whether a cut in the rate of interest will increase a country's economic growth rate. [5]

(g) Using information from the extract, explain why the price of oil may rise more in China than in the US in the future. [4]

(h) Discuss whether a government should try to reduce a surplus on the current account of its country's balance of payments. [6]

Section B

Answer any **three** questions from this section.

2 In 2014 the value of Ghana's currency, the cedi, changed in value by 40% against the US dollar. Inflation rose as the cedi experienced a depreciation. Demand in the economy was changing, with government spending rising by more than taxation. Some economists warned that increasing taxes might cause deflation.

(a) What is meant by a 'depreciation' of a currency? [2]

(b) Explain how a depreciation of a currency can cause a rise in the inflation rate of a country. [4]

(c) Analyse why it may be difficult for an economy to have both low unemployment and low inflation at the same time. [6]

(d) Discuss whether an increase in taxes will cause deflation. [8]

3 A 2014 United Nations report recommended that governments should seek to halve meat consumption. A reduction in meat consumption, it was argued, would reduce the market failure caused by the pollution coming from chemical fertilisers and manure. Reducing meat consumption would free large areas of land that could be used to grow vegetables, cereals and fruit to feed a growing population. The supply of a number of agricultural products is inelastic.

(a) Define 'inelastic supply'. [2]

(b) Explain why market failure occurs. [4]

(c) Analyse how a government could reduce meat consumption. [6]

(d) Discuss whether population growth is likely to exceed the growth of food production in the future. [8]

4 In Egypt in both 2011 and 2012, Gross Domestic Product (GDP) per head and investment fell. One reason for the fall in investment was that firms found it difficult to obtain loans from the country's commercial banks. Another reason was the removal of some government subsidies, including the subsidy given to the producers of petrol.

(a) Define 'GDP per head'. [2]

(b) Explain **two** reasons why firms may find it difficult to obtain loans from commercial banks. [4]

(c) Using a demand and supply diagram, analyse the effect on the market for petrol if a subsidy on petrol is removed. [6]

(d) Discuss whether a fall in a country's GDP will result in net emigration. [8]

5 In 2014 global steel demand slowed because of a halving of the growth in consumption by China, the world's biggest market for steel. The world's biggest steel producing firm forecast higher profits for 2014 although it thought that it might have to cut production. The firm was increasing its specialisation within the steel market. Employment in the industry has declined as firms have sought to reduce their capacity.

(a) Define 'specialisation'. [2]

(b) Explain how a fall in output will affect average fixed cost and average total cost. [4]

(c) Analyse how a firm could reduce its output and increase its total profit. [6]

(d) Discuss whether workers who lose their jobs are likely to still be unemployed a year later. [8]

6 The population of most countries includes more women than men. Iran, however, is an exception. In the 1990s the Iranian Government sought to reduce the country's birth rate. The measures it introduced were very successful and the birth rate fell. In 2012, however, the government changed its objective and is now trying to persuade people to have more children. This change in policy is because of concerns about the effects of an ageing population caused by a falling death rate.

(a) Identify **two** reasons why a country may have more women than men. [2]

(b) Explain **two** causes of a fall in the death rate. [4]

(c) Analyse **three** policy measures a government could introduce to increase the birth rate. [6]

(d) Discuss whether the government of a country with an ageing population should raise the retirement age. [8]

7 The development of laser eye surgery is reducing the demand for spectacles in a number of countries. The treatment of sight problems is using more capital equipment and less labour. Some economists are predicting that the wages of opticians may decrease in the future. A fall in wages may encourage some opticians to retrain for other jobs.

(a) Giving an example, define 'labour'. [2]

(b) Explain **two** reasons why a firm may change from labour-intensive to capital-intensive production. [4]

(c) Analyse why the wages of workers in a particular occupation may fall. [6]

(d) Discuss whether a government should subsidise the provision of training. [8]

BLANK PAGE

BLANK PAGE

BLANK PAGE